



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-09-06

AUDIT OF THE
MARINE REGION – MONTEREY OFFICE
(LICENSE SALES FUNCTION)

DECEMBER 2009

State of California

Memorandum

To: M. Vojkovich, Regional Manager
Marine Region

Date: December 15, 2009

From: Brian A. Kwake
Department of Fish and Game

Audit Control Number
WA-09-06

Subject: Final Audit Report - Marine Region's License Sales Function

Attached is the final audit report for the Marine Region's – Monterey Office (MR) license sales function for the period January 1, 2008 through September 30, 2009. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

The MR's response to the report generally agrees with our audit findings and recommendations. The Audits Branch (AB) incorporated the Department's response as Attachment A to this report.

We would like to thank the MR staff for their time and cooperation. Should you have any questions, please contact Scott Marengo at (916) 445-3367.

Attachment

cc: J. McCamman
K. Hunting
H. Carricker
H. Kiyan
J. Fong
L. Phelps
H. Villalobos
D. Miller

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SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the Marine Region's (MR) license sales function. The audit was conducted to determine whether controls over the license sales function were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except for \$13,655 in missing license inventory, non compliance of semi-annual reconciliation of license inventory, and untimely deposits.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

On November 30, 2007, the AB issued audit report number WA 07-08 on MR's license sales function. We disclosed the following audit findings in the previous audit report: inadequate safeguarding of state assets; non-compliance of semi-annual reconciliation of license inventory; inadequate separation of duties; untimely deposits; and cashiering control weaknesses. Based on our follow-up, we determined that MR has corrected the findings relative to inadequate safeguarding of state assets, inadequate separation of duties and cashiering control weaknesses. As presented in Finding 1 and Finding 2 of this audit report, the MR continues to have issues over the non-compliance of semi-annual reconciliation of license inventory and untimely deposits.

BACKGROUND

The DFG has 11 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 11 regional and field offices in order to provide management reasonable, but not absolute, assurance that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the MR was selected for audit.

SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB audited the MR's license sales function for the period January 1, 2008 through September 30, 2009. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.


Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited.
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks.

CONCLUSION

In our opinion, the MR has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$1,734,129 for the period January 1, 2008 through September 30, 2009. The internal control structure over cash receipts and inventory at the MR in effect at September 30, 2009, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weakness described in the Findings and Recommendations Section of this audit report.



Brian A. Kwake, Chief
Audits Branch

December 15, 2009

Audit Staff: Scott Marengo, Auditor

FINDINGS

AND

RECOMMENDATIONS

FINDING 1 MISSING INVENTORY

We observed that there was \$13,655 in missing license inventory at the MR.

The California Government Code, Section 13402, requires that a satisfactory system of internal accounting and administrative control include a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Additionally, LRB office Memo 01-02, dated February 19, 2002, states in part that: "The License and Revenue Branch and Department of Fish and Game license sales offices are responsible for ensuring the accuracy and accountability of inventory consigned to our license sales offices."

The MR did not have adequate procedures in place to account for their consigned license inventory. Inadequate controls over license inventory could lead to the loss or misuse of state assets.

RECOMMENDATION

The MR Office should attempt to locate the missing inventory. If the inventory cannot be located, management should remove the missing inventory using the declaration process. Thereafter, management should ensure that their internal control system is adequate to track all inventories, assign responsibility, and to promptly identify missing or misplaced inventory.

MR Response: The MR office has attempted to locate the missing inventory without success. We suspect that part of the missing inventory was returned to LRB at the end of the season, but was not included on the inventory list. To prevent this from happening in the future, the returned item inventory list will be double checked by a secondary person prior to it being returned to LRB. The MR Office will also use the declaration process to remove the lost inventory.

AB Comments: We concur with the MR response.

FINDING 2 NON-COMPLIANCE OF SEMI-ANNUAL RECONCILIATION OF LICENSE INVENTORY

The MR does not perform the Semi-Annual Reconciliation of license inventory. Consequently, our audit could not locate \$13,655 in missing inventory and there was an additional \$21,650 of expired inventory sent back

to LRB on August 1, 2008 but never removed from the MR LAS inventory statement.

LRB office memorandum number 01-02, dated February 19, 2002, states that the LRB will provide DFG license sales offices with a statement of all consigned inventory semi-annually. The statement is to be compared against a physical count of all inventory consigned to the office, and is to be done by an independent third party who does not order, receive, consign, maintain or sell inventory.

The MR did not perform the semi-annual reconciliation. Without reconciliations, there is no assurance that consigned inventory is accounted for and is current.

RECOMMENDATION

The MR should conduct the Semi-Annual Physical Inventory of its assigned inventory. This reconciliation should be performed by someone other than the inventory custodian, counter sales personnel, or the person receiving the inventory shipments. If the Semi-Annual Inventory Statement is not received for the April and October periods, the MR should contact the LRB and request a copy of the statement for the purpose of completing their semi-annual reconciliation.

MR Response: The MR office will conduct semi-annual physical inventory of its assigned inventory performed by someone not currently associated with the license sales function. We have assigned this to a Sr. Personnel Specialist within the Monterey office and will also designate an individual within the Monterey office as a back-up. The MR will also work with LRB to obtain the needed statements. The license sales supervisor will contact LRB to discuss how best to perform the reconciliation and how to obtain the needed reports.

AB Comments: We concur with the MR response.

FINDING 3 UNTIMELY DEPOSITS

Deposits are not always made timely at the MR. We disclosed the following instances of noncompliance:

- Out of a sample of 20 deposit slips tested for license sales, 12 contained cash in excess of \$1,000 which had been left in the safe from 2 to 5 days before being deposited; and

- Twelve miscellaneous deposit slips selected for compliance testing disclosed only 6 out of 31 sampled checks were deposited within 30 days from the date of the check.

The State Administrative Manual (SAM) Section 8032.1 requires agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash may accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants, whichever occurs first, and then must make deposits. Accordingly, untimely deposits could result in the loss or theft of the State's assets.

RECOMMENDATION

We recommend that the MR make deposits timely.

MR Response: The MR office will make timely deposits. The Marine Region is currently in the process to hire an additional support person to help make sure this happens when staff is on vacation or out sick.

AB Comments: We concur with the MR response.

ATTACHMENT A AUDITEE'S RESPONSE

State of California
Department of Fish and Game
M e m o r a n d u m



To: Brian A. Kwake, Chief
Audits Branch
Department of Fish and Game

Date: December 1, 2009

From: Marija Vojkovich *Marija Vojkovich*
Regional Manager
Marine Region

Subject: Audit of the Marine Region License Sales Function, Monterey Office (MR)
(Audit Control Number WA-09-06)

Thank you for your October 30, 2009 memo and draft audit report for the Marine Region's license sales function for the period January 1, 2008 through September 30, 2009 of our Monterey office. We appreciate the opportunity to provide our response to the draft report so that our comments can be incorporated into the final audit report. As a result of the audit findings we have implemented changes consistent with the audit recommendations. The specific changes we have implemented are outlined below.

Finding 1-Missing Inventory

The MR office has attempted to locate the missing inventory without success. We suspect that part of the missing inventory was returned to LRB at the end of the season, but was not included on the inventory list. To prevent this from happening in the future, the returned item inventory list will be double checked by a secondary person prior to it being returned to LRB. The MR Office will also use the declaration process to remove the lost inventory.

Finding 2-Non-Compliance of Semi-Annual Reconciliation of License Inventory

The MR office will conduct semi-annual physical inventory of its assigned inventory performed by someone not currently associated with the license sales function. We have assigned this to a Sr. Personnel Specialist within the Monterey office and will also designate an individual within the Monterey office as a back-up. The MR will also work with LRB to obtain the needed statements. The license sales supervisor will contact LRB to discuss how best to perform the reconciliation and how to obtain the needed reports.

Finding 3-Untimely Deposits

The MR office will make timely deposits. The Marine Region is currently in the process to hire an additional support person to help make sure this happens when staff is on vacation or out sick.

If you have any questions, please contact Lenore Phelps, Administrative Officer III at (916) 651-7671.